

Message Text

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DRAFTED BY ARA/B:JEKARKASHIAN:ARA/BC/C:AISAACS:BJD

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APPROVED BY ARA:JBKUBISCH

S/S:MR. GAMMON

ARA:HWSHLAUDEMAN

AA/LA:HKLEINE

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FM SECSTATE WASHDC

TO AMEMBASSY SANTIAGO IMMEDIATE

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EXDIS

C O R R E C T E D C O P Y (OMISSION LINE 11, PARA 14)

E.O. 11652:XGDS

TAGS; CI, US, PFOR

SUBJECT: SAEZ VISIT

1. JUNTA ECONOMIC ADVISOR, RAUL SAEZ, ACCOMPANIED BY AMBASSADOR HEITMANN, MET WITH ASSISTANT SECRETARY KUBISCH ON DECEMBER 12. (PRINCIPALS SUBSEQUENTLY MET WITH LARGER GROUP INCLUDING MASSAD, EMBASSY FIRST SECRETARY RODRIGUEZ AND VARIOUS DEPARTMENT AND A.I.D. OFFICIALS.)

2. KUBISCH EXPRESSED PLEASURE AT MEETING DISTINGUISHED GUEST AND EXPLAINED THAT OTHER DEPARTMENT AND USAID OFFICERS WOULD SHORTLY JOIN THE MEETING WITH SAEZ TEAM. HE ASKED IF SAEZ WISHED TO RAISE ANY MATTERS PRIVATELY BEFORE JOINING OTHERS. SAEZ SAID HE WAS GRATIFIED KUBISCH WAS ABLE TO SEE HIM SO SOON AFTER HIS ARRIVAL, NOTED HE HAD JUST MET WITH TREASURY ASSISTANT SECRETARY HENNESSY, AND SAID HE WOULD LIKE TO REVIEW BRIEFLY SOME ASPECTS OF CHILEAN ECONOMIC
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SITUATION WITH KUBISCH.

3. SAEZ SAID OFFICIAL EXCUSE FOR HIS VISIT TO WASHINGTON WAS CIAP INTER-AGENCY MEETING ON DECEMBER 17-18. HE

ACKNOWLEDGED CHILE HAD NOT LIVED UP TO ITS OBLIGATIONS IN RECENT PAST BUT THAT PRESENT GOVERNMENT WOULD DO SO. HE HOPED FRIENDLY GOVERNMENTS WOULD UNDERSTAND THAT IF CHILE COULD NOT IMMEDIATELY FULFILL ALL ITS OBLIGATIONS IT WAS ONLY BECAUSE IT WAS UNABLE TO DO SO. HE NOTED ALLENDE GOVERNMENT INHERITED POSITIVE FX RESERVES OF DOL 350 MILLION AND BEQUEATHED NEGATIVE FX RESERVES OF OVER DOL 700 MILLION. HE ESTIMATED 1974 BALANCE OF PAYMENTS DEFICIT AT DOL 200 MILLION UNDER THE BEST OF CONDITIONS, I.E., INCLUDING FAVORABLE PARIS CLUB RESCHEDULING OF THE 1973-74 DEBT.

4. SAEZ STATED GOC WOULD PAY FOR EXPROPRIATED PROPERTIES, NOT ONLY FOR COPPER MINES BUT OTHER ENTERPRISES AS WELL. CHILE EXPECTED TO PAY FAIR COMPENSATION BUT IN ACCORDANCE WITH THE COUNTRY'S ECONOMIC SITUATION. HE CITED THE APPOINTMENT OF COPPER NEGOTIATOR PHILIPPI AND SAID TALKS WITH CERRO AND ANACONDA BEGAN OVER A WEEK AGO. HE NOTED KENNECOTT UNFORTUNATELY DID NOT HAVE ADEQUATE REPRESENTATION IN CHILE AND, THEREFORE, TALKS HAD NOT YET BEGUN. HE SAID HE WAS CARRYING LETTERS FROM PHILIPPI TO KENNECOTT AND ANACONDA INVITING THE INITIATION OF FORMAL NEGOTIATIONS BY THE END OF THE YEAR. HE SAID HE WOULD MEET WITH COMPANY REPRESENTATIVES PERSONALLY IN NEW YORK NEXT WEEK.

5. SAEZ SAID THE GOC HAD JUST SUBMITTED A REQUEST TO THE AMERICAN EMBASSY IN SANTIAGO FOR PL 480 ASSISTANCE. HE ACKNOWLEDGED THE OBVIOUS LIMITATIONS ON THIS PROGRAM BUT STRESSED THAT THE CHILEANS NEED WAS EXCEPTIONAL. KUBISCH SAID THE USG WOULD LIKE TO BE HELPFUL ON PL 480 BUT THE PROSPECTS WERE EXTREMELY LIMITED, ESPECIALLY FOR THE NEAR FUTURE. HE OFFERED TO DISCUSS THE MATTER FURTHER AT A LATER DATE.

6. KUBISCH NOTED SAEZ HAD MENTIONED COMPENSATION FOR EXPROPRIATED INTERESTS OTHER THAN COPPER. HE SAID THAT WITHOUT EXPRESSING ANY SPECIAL INTEREST OR POINT OF VIEW,
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HE WAS INTERESTED IN SAEZ'S VIEWS REGARDING THE ITT SITUATION. HE SAID HE REALIZED THE SENSITIVITY OF THIS PROBLEM AND NOTED THAT ITT OFFICIALS HAD ASKED TO MEET WITH HIM TO DISCUSS THEIR SITUATION IN CHILE. HE SAID SAEZ COULD BE AS FRANK AS HE WISHED IN EXPRESSING ANY VIEWS HE HAD WHETHER ON AN OFFICIAL OR UNOFFICIAL BASIS.

7. SAEZ STATED THAT THE GOC GENERALLY WANTED TO ENCOURAGE FOREIGN INVESTMENT AND THAT HE HAD INSISTED THAT THE GOVERNMENT COMPLY WITH ANDEAN CODE RESOLUTION 24 EVEN THOUGH HE PERSONALLY DID NOT FAVOR IT. HE SAID THAT ALL PROPERTY WHICH HAD BEEN ILLEGALLY TAKEN BY THE PREVIOUS GOVERNMENT WOULD BE RETURNED AND MENTIONED PETRODOW AS AN

EXAMPLE. HE SAID ITT HAD NOT BEEN DISCUSSED IN THE GOVERNMENT BUT IT WAS HIS PERSONAL OPINION THAT ITS CASE SHOULD BE TREATED NORMALLY. HE SAID THAT WHILE HIS VIEWS HAD NO OFFICIAL SANCTION, HE FELT A FAIR AMOUNT COULD BE

ESTABLISHED FOR PAYMENT ON THE CONDITION THAT IT BE REINVESTED IN CHILE. SAEZ OBSERVED THAT IF POLITICAL BIAS WERE ELIMINATED, THE ANDERSON PAPERS ON ITT WERE NOT ALL THAT STARTLING AND FELL WITHIN THE GENERAL FRAMEWORK OF A COMPANY INFORMING ITS PRINCIPALS OF LOCAL CONDITIONS WHICH WOULD AFFECT FUTURE OPERATIONS. SAEZ THEN REFLECTED ON HIS OWN PREVIOUS NEGOTIATIONS WITH ITT WHICH PROVIDED FOR DOUBLING THE COMPANY'S CAPACITY IN CHILE AND EVENTUAL ACQUISITION BY THE GOC OF A MAJORITY INTEREST.

8. KUBISCH SAID THAT SAEZ WAS REGARDED WITH GREAT RESPECT WITHIN THE USG AND NOTED THAT RELATIONS BETWEEN U.S. AND CHILEAN OFFICIALS HAD BEEN MOST CORDIAL AND COOPERATIVE. HE EXPRESSED THE HOPE THAT THE CHILEAN GOVERNMENT WOULD RESOLVE ITS DIFFERENCES WITH PRIVATE U.S. COMPANIES SO THAT WE COULD CONTINUE TO COOPERATE WITH THE GOC. HE NOTED THAT THE RESOLUTION OF THESE ISSUES WAS A PROBLEM FOR THE GOC TO WORK OUT DIRECTLY WITH THE U.S. COMPANIES AND OBSERVED THAT THERE WERE LEGAL CONSTRAINTS ON THE USG WITH RESPECT TO SOME OF THESE PROBLEMS.

9. SAEZ ASKED THAT THE USG NOT PRESS TOO HARD ON THE ITT CASE BECAUSE OF ITS SENSITIVE NATURE AND EXPRESSED CONCERN
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THAT IT COULD BECOME A PROPAGANDA ISSUE AND THUS BE CONVERTED INTO AN EVEN MORE DIFFICULT PROBLEM THAN IT ALREADY IS. HE SAID THAT IN DUE TIME, PERHAPS IN MID-1974 OR EVEN AS EARLY AS JANUARY, SOME PRELIMINARY DISCUSSIONS COULD BE STARTED ON ITT.

10. KUBISCH STATED THAT IT WOULD BE VERY USEFUL TO START THINKING ABOUT THE ITT PROBLEM AND THAT THE USG REALIZED THAT THE GOC WAS AWARE OF THE IMPORTANCE OF THESE DISPUTES AND THE EFFECT THE COMPENSATION ISSUE COULD HAVE ON OUR OVERALL RELATIONS. HE SAID THE U.S. WAS NOT PRESSING THE GOC IN ANY WAY ON THESE MATTERS, THAT IT HAD FAITH IN THE GOODWILL OF THE GOC TO FIND APPROPRIATE SOLUTIONS WITHIN THE LIMITS OF ITS CAPABILITIES. HE SAID IT WAS UP TO THE CHILEAN GOVERNMENT TO DECIDE HOW IT WOULD GO ABOUT RESOLVING THESE PROBLEMS AND THAT HE WAS SATISFIED THAT SAEZ WAS AWARE OF THE USG POSITION AND THE LEGAL RESTRAINTS UPON IT. HE SAID HE WELCOMED SUCH OPPORTUNITIES TO EXCHANGE VIEWS EVEN IF THEY WERE ON A PERSONAL BASIS AND WITHOUT ANY COMMITMENT ON EITHER SIDE.

11. DURING SUBSEQUENT SEPARATE SESSION MENTIONED ABOVE,

SAEZ RECAPITULATED DIRE ECONOMIC AND FINANCIAL SITUATION INHERITED FROM ALLENDE, PROGRESS IN OPENING COPPER TALKS AND GOC'S DESIRE FOR PL 480 ASSISTANCE. HE WAS SOMEWHAT CRITICAL OF IMF FOR APPLYING WHAT HE REGARDED AS

ORTHODOX FINANCIAL RECIPES TO SITUATION WITHOUT PRECEDENT.

12. SAEZ CONTENDED THAT GOC AUSTERITY MEASURES HAVE MET WITH INITIAL SUCCESS WITHOUT DETERIORATION IN LABOR DISCIPLINE OR CONSUMER UNDERSTANDING. HE PREDICTED ANNUAL COL RISE WOULD REACH 770 PERCENT BY YEAR'S END, BUT NOTED THAT GOC HOPED TO GET MAJOR COL AGGRAVANTS BEHIND IT AS IT WENT INTO NEW YEAR. RECOVERY WOULD TAKE LONGEST, HE NOTED, IN AGRICULTURE, WHERE HE HOPED FOR U.S. TECHNICAL HELP AS LAND TENURE SYSTEM SHIFTED AWAY FROM COLLECTIVE APPROACH TO ONE EMPHASIZING INTENSIVELY CULTIVATED FAMILY PLOTS. OTHER THAN PL 480, SAEZ MENTIONED GOC INTEREST IN RECEIVING HELP IN EMPLOYMENT-INTENSIVE AREAS SUCH AS HOUSING AND REFORESTATION, BUT WAS VAGUE ABOUT GOC NEEDS
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AND OBSERVED THAT PURPOSE OF MEETING WAS NOT TO ASK FOR AID.

13. KUBISCH ASKED DEPUTY COORDINATOR KLEINE TO REVIEW U.S. COMMODITY PICTURE UNDER PL 480. KLEINE NOTED THAT SUPPLIES OF MOST ITEMS TIGHTER THAN EVER AND PRICES HIGHER AND THAT PROSPECTS FOR FY 74, AT LEAST, WERE MOSTLY DIM. WHEN NEW CROP IN HAND, FY 75 AVAILABILITIES COULD BE SOMEWHAT BETTER BUT IT IS DIFFICULT TO FORESEE. SAEZ RESPONDED THAT DOMESTIC CROP AND PROJECTED IMPORTS WOULD MEET CHILEAN GRAIN NEEDS FOR FIRST HALF CY-74, AND THAT IT WAS PRECISELY FOR FIRST-HALF FY 75 THAT MASSIVE SHORT-FALL ANTICIPATED.

14. ON COPPER, KUBISCH EXPRESSED HOPE THAT CHILEANS WOULD NOT BIND THEMSELVES TO ANY SET FORMULA OR PROCEDURE IN NEGOTIATIONS WITH COMPANIES. HE ALSO MENTIONED THAT THERE HAS BEEN EXPECTATION FOR MANY MONTHS THAT CERRO SETTLEMENT WAS CLOSE AT HAND. SAEZ CITED TAX CLAIM AGAINST CERRO AS ITEM WHICH ALLENDE GOVERNMENT NEGLECTED TO MENTION WHEN IT WAS CLAIMING CERRO SETTLEMENT ON VERGE OF BEING SIGNED. IN RESPONSE TO KUBISCH'S EXPLANATION OF WHY USG BELIEVED IT WAS MORE APPROPRIATE AND EFFECTIVE FOR GOC TO REQUEST ANACONDA AND KENNECOTT TO DEFER PENDING LITIGATIONS, SAEZ REITERATED GOC'S "DETERMINATION" TO REACH SETTLEMENT. KUBISCH REITERATED USG SATISFACTION THAT BOTH GOC AND THE COMPANIES FAVORED DIRECT NEGOTIATIONS WITHOUT USE OF USG AS INTERMEDIARY. RUSH

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